



CALIFORNIA FAIR SERVICES AUTHORITY

● Financial Statements
with Independent
Auditor's Report

**FOR THE YEARS ENDED
DECEMBER 31, 2001 AND 2000**

FINANCIAL SECTION
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Fair Services Authority
Sacramento, California
March 5, 2002

We have audited the accompanying financial statements of the California Fair Services Authority (the Authority) as of and for the years ended December 31, 2001 and 2000, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2001 and 2000, and the

results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information on pages 48 through 54 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

GILBERT ASSOCIATES, INC.

BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

ASSETS	2001	2000
Cash and cash equivalents	\$ 9,787,708	\$ 7,897,563
Investments	5,261,318	5,081,092
Risk fees receivable, net of allowance for doubtful accounts of \$39,349 in 2001 and 2000	1,691,025	1,573,063
Receivables from fairs and others	350,870	645,231
Settlement note receivable	1,023,000	1,023,000
Legal settlement receivable	222,927	
Contracts receivable for equipment financing, net	101,883	82,483
Prepaid expenses	39,755	32,800
Fixed assets, net	2,071,882	2,203,139
Inventory	951	505
Total Assets	\$ <u>20,551,319</u>	\$ <u>18,538,876</u>

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2001 AND 2000

	2001	2000
LIABILITIES AND RETAINED EARNINGS		
Accrued liabilities	\$ 336,758	\$ 415,308
Division of Fairs and Expositions funds	1,085,696	1,417,394
Revenue Protection Program	3,895,985	3,671,781
Property Program	<u>2,549,717</u>	<u> </u>
	7,868,156	<u>5,504,483</u>
Unpaid Losses and Loss Adjustment Expense:		
General liability	2,350,000	3,240,000
Workers' compensation	3,416,000	2,590,000
Special events	<u>181,000</u>	<u>260,000</u>
Total Unpaid Losses and Loss Adjustment Expenses	<u>5,947,000</u>	<u>6,090,000</u>
Total Liabilities	<u>13,815,156</u>	<u>11,594,483</u>
Retained Earnings:		
Confidence margin	2,515,000	2,600,000
Undesignated	<u>4,221,163</u>	<u>4,344,393</u>
Total Retained Earnings	<u>6,736,163</u>	<u>6,944,393</u>
Total Liabilities and Retained Earnings	<u>\$ 20,551,319</u>	<u>\$ 18,538,876</u>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Operating Revenues:		
General liability fees	\$ 1,689,220	\$ 1,528,290
Workers' compensation fees	2,569,530	2,325,968
Special events fees	440,586	385,841
Dental fees	134,656	116,344
Computer service fees	87,725	135,589
Purchasing service fees	134,985	90,369
Other operating revenue	490,001	263,275
Rental income	125,438	155,788
Miscellaneous income	<u>85,186</u>	<u>127,606</u>
Total Operating Revenues	<u>5,757,327</u>	<u>5,129,070</u>
Operating Expenses:		
Losses and loss adjustment expenses	3,217,740	3,954,421
Employee salaries and benefits	1,964,279	1,728,977
Excess insurance costs	391,397	369,370
Computer service costs	49,677	54,279
General and administrative costs	604,091	687,550
Depreciation and amortization	<u>161,232</u>	<u>162,450</u>
Total Operating Expenses	<u>6,388,416</u>	<u>6,957,047</u>
Operating Loss	<u>(631,089)</u>	<u>(1,827,977)</u>
Other Income:		
Investment income	413,342	651,203
Income from equipment financing	<u>9,517</u>	<u>9,049</u>
Total Other Income	<u>422,859</u>	<u>660,252</u>
Net Loss	<u>\$ (208,230)</u>	<u>\$ (1,167,725)</u>

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	CONFIDENCE MARGIN	UNDESIGNATED	TOTAL
Balance, January 1, 2000	\$ 4,820,000	\$ 3,292,118	\$ 8,112,118
Net Loss		(1,167,725)	(1,167,725)
Designation for Confidence Margin	<u>(2,220,000)</u>	<u>2,220,000</u>	_____
Balance, December 31, 2000	2,600,000	4,344,393	6,944,393
Net Loss		(208,230)	(208,230)
Designation for Confidence Margin	(85,000)	85,000	_____
Balance, December 31, 2001	\$ <u>2,515,000</u>	\$ <u>4,221,163</u>	\$ <u>6,736,163</u>

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
Cash Flows from Operating Activities:		
Operating income (loss)	\$ (631,089)	\$ (1,827,977)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	161,232	162,450
Loss on disposal of property and equipment	7,153	1,899
(Increase) decrease in:		
Risk fees receivable	(117,962)	(310,581)
Receivables from fairs and others	294,361	101,231
Receivable from Division of Fairs and Expositions		(1,023,000)
Settlement note receivable	(222,927)	
Legal settlement receivable		35,661
Contracts receivable for equipment financing, net	(19,400)	(6,955)
Prepaid expenses	(6,955)	(446)
Inventory	(446)	
Increase (decrease) in:		
Accrued liabilities	(78,550)	159,717
Division of Fairs and Expositions funds	(331,698)	472,786
Revenue Protection Program	224,204	(300,287)
Property Program	2,549,717	(143,000)
Unpaid losses and loss adjustment expenses	(143,000)	(399,285)
Net cash provided (used) by operating activities:	\$ <u>1,684,640</u>	\$ <u>(2,937,527)</u>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Cash Flows from Investing Activities:		
Investment income	\$ 234,725	464,273
Proceeds from sale of marketable securities	3,024,667	5,032,179
Purchases of marketable securities	(3,026,276)	(3,393,649)
Income from Equipment Financing Program	<u>9,517</u>	<u>9,049</u>
Net cash provided by investing activities	<u>242,633</u>	2,111,852
Cash Flows from Capital and Related Financing Activities:		
Purchase of fixed assets	(37,128)	<u>(119,045)</u>
Net increase (decrease) in cash and cash equivalents	1,890,145	(944,720)
Cash and cash equivalents, beginning of year	7,897,563	<u>8,842,283</u>
Cash and cash equivalents, end of year	\$ <u>9,787,708</u>	\$ <u>7,897,563</u>
Supplemental schedule of non-cash investing activities:		
Net change in fair value of investments	\$ <u>178,617</u>	\$ <u>186,930</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The California Fair Services Authority (the Authority) operates pursuant to its joint powers agreement, as authorized by the California Government Code, Sections 6500, et. Seq. The Government Code authorizes two or more public agencies to jointly exercise common powers by agreement (Section 6502). In addition, the Government Code specifically authorizes public agencies conducting fairs to enter into a joint powers agreement to form pooling arrangements for losses incurred by such agencies (Section 6516). Section 6516 states that the Department of Food and Agriculture may enter into such a joint powers agreement on behalf of district agricultural associations and citrus fruit fairs. The power of a joint powers agency "is subject to the restrictions upon the manner of exercising the power of one of the contracting parties, which party shall be designated by the agreement" (Section 6509).

The Authority was first formed in April 1986 by agreement between the County of Santa Clara and the Department of Food and Agriculture (DFA) on behalf of the 54 district agricultural associations. Since that time, a number of additional counties have joined. DFA has joined on behalf of the two citrus fruit fairs and the California Exposition and State Fair has joined independently of DFA. In addition, the joint powers agreement has been amended a number of times as the Authority's Board of Directors expanded and the Authority's programs extended beyond risk pooling.

The Authority is governed by a seven-member board consisting of five elected representatives from member fairs, one appointed public member, and one member appointed by the Secretary of DFA. Operating revenue is derived from fees assessed on the various programs and services offered.

The primary activities of the Authority include:

- Providing joint protection programs for 68 member fairs in California and the California Construction Authority, a joint powers agency providing construction services to the fair industry. The Authority's joint protection programs include the general liability and workers' compensation programs. The number of pool participants can vary depending on the addition of new member fairs and/or exit of current member fairs.
- Administration of a special events program, providing pooled liability protection for users of fair facilities.
- Administration of a revenue protection program for participating fairs.
- Administration of a property insurance program for all California fairs.
- Coordinating health and safety inspections of member fairs' facilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Providing bulk purchasing services to member fairs for fees.
 - Providing computer services to member fairs for fees, including payroll and accounting services.
 - Acting as an intermediary for the Division of Fairs and Expositions to reimburse billings from the California Employment Development Department for unemployment claims for the fairs.
 - Contracting with service providers for certain fair-time services at member fairs.
 - Acting as an intermediary for the California Department of Personnel Administration in collecting contributions from the Part-time Seasonal Temporary employees at the District Agricultural Associations.
 - Administering the Equipment Exchange Program in conjunction with the California Construction Authority and various fair service programs under letters of understanding with the Division of Fairs and Expositions and member fairs.
- Revenue and expenses of the Revenue Protection Program, Property Insurance Program, California Employment Development Department Unemployment Program and Equipment Exchange Program are not recorded on the Authority's financial statements, except for administration fees.

EXCESS INSURANCE

The Authority provides joint protection coverage for its members. The Authority carries excess and reinsurance for coverage of losses in excess of the Authority's self-insured retention (SIR). The Authority's 2001 program offers the following coverage:

- Prior to June 1, 1997, the Authority's general liability coverage consisted of an aggregate per year limit of \$10,000,000 for all members. The Authority's SIR for general liability was \$5,000,000 aggregate per year for all members and the Authority obtained excess insurance coverage of \$5,000,000 per year.
- Effective June 1, 1997, the Authority changed its SIR from \$5,000,000 per occurrence and in the aggregate per year to \$1,000,000 per occurrence and \$5,000,000 in the aggregate per year. In addition, the Authority had excess insurance coverage of \$9,000,000 per occurrence and in the aggregate per year for all members.
- Effective January 1, 2000, the Authority changed its SIR from \$1,000,000 per occurrence to \$500,000 per occurrence. Also, the Authority obtained reinsurance to increase its excess insurance coverage from \$9,000,000 per occurrence and in the aggregate to \$9,500,000 per occurrence and in the annual aggregate per fair for specified coverages.
- The Authority's SIR for workers' compensation was \$250,000 per accident or disease from 1988 through 1995 and \$300,000 from 1996 through 1999. The Authority had

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

excess insurance coverage up to the statutory limits for workers' compensation and up to \$5,000,000 (in the aggregate for all fairs) for Employer's Liability.

Effective January 1, 2000, the Authority changed its SIR from \$300,000 per accident or disease to \$250,000 per accident or disease. The Authority had excess insurance coverage up to the statutory limits for workers' compensation and up to \$5,000,000 (in the aggregate for all fairs) for Employer's Liability. Effective July 1, 2001, the Authority increased its SIR from \$250,000 per accident or disease to \$300,000 per accident or disease.

- Beginning in 1996, the Authority provided special events coverage of \$1,000,000 per occurrence and in the aggregate per year. The Authority's SIR for special events was \$500,000 per occurrence with excess insurance coverage of \$500,000 in the aggregate per year.

Effective January 1, 2000, the Authority changed its SIR from \$500,000 per occurrence to \$250,000 per occurrence. In addition, the Authority obtained reinsurance to increase excess coverage to \$1,000,000 per occurrence and \$1,000,000 in the aggregate for all self-insured losses in a year.

- Beginning in 1997, the Authority purchased employment practices liability coverage up to \$3,000,000 in the aggregate per year for member fairs. Effective January 1, 2000, this coverage was provided in the Authority's general liability program.

- Beginning in 1998, the Authority purchased \$1,000,000 in excess insurance for the Revenue Protection Program above the Program's stop-loss limit of \$500,000.

Effective January 1, 2001, the Authority purchased excess insurance to increase the Program's stop-loss limit to \$600,000 from \$500,000.

FUNDING OF PROGRAMS

Program underwriting and rate setting policies have been established after consultation with actuaries.

Risk fees for the general liability program are assessed to the membership on the basis of fair classifications determined by the Division of Fairs and Expositions and the individual fairs' loss history. Risk fees for the workers' compensation program are assessed to the membership on the basis of gross payroll and the individual fairs' loss history. Coverage for both programs is based on the calendar year.

Risk fees for the special events program are assessed to participating fair facility users on the basis of the estimated level of risk and attendance of each special event.

Funding for the Revenue Protection Program is assessed to the membership based on a fee of \$250 per \$25,000 of coverage.

The Authority provides excess reinsurance coverage for a single loss or a series of losses which would exceed the equity of the Authority. In the unlikely event that excess

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reinsurance is not adequate for a catastrophic loss or series of losses, the Authority has the ability to make supplementary assessments to member fairs. In addition, the Authority or its member fairs could request support from the Fairs and Expositions Fund or from a specific appropriation by the California legislature.

BASIS OF ACCOUNTING

As the Authority was established to account for activities that are operated in a manner similar to those of private business enterprises, it is considered an enterprise fund and, as such, the accounting records of the Authority are maintained on the accrual basis of accounting. As allowed by governmental accounting standards, the Authority has elected to apply statements and related interpretations issued by the Financial Accounting Standards Board before November 30, 1989, except for those that conflict with or contradict Government Accounting Standards Board (GASB) pronouncements.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

The Authority considers all highly liquid debt instruments purchased with a maturity of three months or less and its investment in the Local Agency Investment Fund (LAIF) to be cash equivalents.

INVESTMENTS

The Authority records its investments and cash in the LAIF at fair value. Changes in fair value are reported as revenue in the statement of operations.

Fair value of investments has been determined based on quoted market prices. The Authority's investment in LAIF is valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.

FIXED ASSETS

Fixed assets are stated at cost. Major additions are capitalized and repair and maintenance costs are expensed. Depreciation is computed using the straight-line method over estimated useful lives of three years for automobiles and computer equipment, five years for furniture and equipment, 15 years for improvements, and 25 years for buildings. When assets are sold or abandoned, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the statement of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RISK FEES RECEIVABLE/RECEIVABLES FROM FAIRS AND OTHERS

Risk fees receivable represent the billed and unbilled portion of workers' compensation and general liability insurance fees at a specific point in time. Receivables from fairs and others represent amounts related to letters of understanding and other services performed. Risk fees assessed are recognized as earned on a pro rata basis over the coverage term.

Member fairs have three payment plan options for their annual assessments for the workers' compensation and general liability programs. These plans consist of:

1. Lump sum payment by July 31, with a 2% discount;
2. Six monthly payments from July 1 through December 31, with a 1% discount; or
3. Twelve equal monthly payments.

The annual assessment covers the policy coverage period January 1 through December 31. The first monthly payment is assessed in July of the same year as the coverage period, and the last payment is assessed in June of the year following the year of coverage. Therefore, under the twelve-month payment plan, the fairs are billed six months in arrears of their monthly coverage.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The Authority establishes claim liabilities based on estimates of the ultimate cost of claims (including future

claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. These estimates have not been discounted to their present value. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they become known.

Although the Authority considers its experience and industry data in determining the liabilities, assumptions and projections as to future events are necessary and ultimate losses may differ significantly from amounts projected. Because only limited historical data is available and assumptions and projections as to future events are necessary, ultimate losses may differ significantly from estimates in the near term.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, consisted of the following:

	2 0 0 1		2 0 0 0	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash in banks	\$ 2,952,362	\$ 3,222,725	\$ 551,010	\$ 862,441
Money Market Fund	356,228	356,228	66,424	66,424
L A I F	<u>6,479,118</u>	<u>6,479,118</u>	<u>7,280,129</u>	<u>7,157,111</u>
Total cash and cash equivalents	\$ <u>9,787,708</u>	\$ <u>10,058,071</u>	\$ <u>7,897,563</u>	\$ <u>8,085,976</u>

Cash balances held in banks and money market funds are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). Balances above the insured limit are collateralized.

The cash in L A I F is considered highly liquid. California's state pool representatives have indicated that L A I F has not invested in derivatives, but does invest in structured notes and asset-backed securities. These investments represent approximately 4.7% of the pool assets at December 31, 2001. These pooled funds are carried at fair value, which was approximated by cost. Any investment losses are shared proportionately by all participants in the pool.

3. INVESTMENTS

Under provisions of California Government Code Sections 6509.5 and 53601 (the Code), the Authority is authorized to invest in:

- A variety of federal and state treasury obligations (including local California agencies).
- Obligations or other instruments of or issued by federal agencies or government-sponsored enterprises.
- Bankers' acceptances which are eligible for purchase by the federal reserve system (subject to certain limitations).
- Prime quality commercial paper (subject to certain limitations).
- Negotiable certificates of deposit issued by nationally or state chartered banks, savings and loan associations, and credit unions.
- Repurchase agreements or reverse repurchase agreements of any securities authorized by the Code.
- Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

The Authority's investments are categorized according to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered with securities held by the counter party or its trust department or agent but not in the entity's name.

3. INVESTMENTS (continued)

Investments held by the Authority at December 31, 2001 and 2000 consisted of the following:

DECEMBER 31, 2001					
	C A T E G O R Y			Fair Value	Amortized Cost
	1	2	3		
U.S. Treasury Notes	\$ 1,227,843	-	-	\$ 1,227,843	\$ 1,191,368
U.S. Government Agencies	1,431,425	-	-	1,431,425	1,369,510
Corporate Bonds	2,602,050	-	-	2,602,050	2,521,171
Total	\$ <u>5,261,318</u>	-	-	\$ <u>5,261,318</u>	\$ <u>5,082,049</u>
DECEMBER 31, 2000					
	C A T E G O R Y			Fair Value	Amortized Cost
	1	2	3		
U.S. Treasury Notes	\$ 2,319,977	-	-	\$ 2,319,977	\$ 1,269,957
U.S. Government Agencies	1,491,321	-	-	1,491,321	1,467,655
Corporate Bonds	1,269,794	-	-	1,269,794	2,354,883
Total	\$ <u>5,081,092</u>	-	-	\$ <u>5,081,092</u>	\$ <u>5,092,495</u>

4. CONTRACTS RECEIVABLE FOR EQUIPMENT FINANCING, NET

The Authority has long-term contracts with its member fairs for the financing of equipment. Under this program, the Authority either purchases equipment on behalf of the fairs or makes loans to the fairs for them to purchase equipment. The contracts bear an interest rate of 8.50% and are collateralized by the underlying equipment. All equipment is owned by the fairs in their own name.

Annual minimum payments due on these contracts at December 31, 2001 are as follows:

	YEAR ENDING DECEMBER 31,
2002	\$ 52,366
2003	18,001
2004	7,497
2005	6,069
2006	<u>42,747</u>
Total minimum payments	126,680
Less amount representing interest	<u>(24,797)</u>
Net contracts receivable for equipment financing	\$ <u>101,883</u>

5. FIXED ASSETS

Fixed assets as of December 31, 2001 and 2000 consisted of the following:

	2001	2000
Building and improvements	\$ 1,862,804	\$ 1,856,730
Land	681,073	681,073
Equipment	552,920	529,916
Furniture and leasehold improvements	129,188	128,593
Vehicles	<u>57,213</u>	<u>57,213</u>
Total fixed assets	3,283,198	3,253,525
Less accumulated depreciation and amortization	<u>(1,211,316)</u>	<u>(1,050,386)</u>
Fixed assets, net	\$ <u>2,071,882</u>	\$ <u>2,203,139</u>

6. DIVISION OF FAIRS AND EXPOSITIONS FUNDS

During 2001 and 2000, the Authority received from the Division of Fairs and Expositions (Division) approximately \$950,000 annually in funds to be used for the Unemployment Insurance Program. In addition, the Authority received \$1,000,000 from the Division in 1997 to act as an intermediary for the Equipment Exchange Program. Of the total funds received, \$1,085,696 and \$1,417,394 were unexpended at December 31, 2001 and 2000, respectively. These funds are committed to fair service programs under letters of understanding with the Division and accounted for as liabilities until spent. Receipts and expenditures of Division funds are not recorded as Authority revenues and expenses, except for administration fees.

At December 31, 2001, the Authority's liabilities also included \$2,549,717 in funds advanced from the California Fairs Financing Authority, as authorized by the Division, for the purpose of funding the operations of a property insurance risk pooling program for California fairs beginning January 1, 2002.

7. REVENUE PROTECTION PROGRAM

The Division of Fairs and Expositions advanced funds to the Authority in 1995 to fund the Revenue Protection Program which provides coverage to the fairs ranging from \$50,000 to \$600,000 per member. In addition, excess insurance provides coverage of \$1,000,000 to the fairs. The Authority administers the funds received and pays claims under this program on behalf of the member fairs for a fee and does not assume any liability for claims. Premiums are assessed to fairs to maintain the Program resources at the amounts originally funded. The transactions recorded during the years ended December 31, 2001 and 2000 include the following:

	2001	2000
Unexpended funds at January 1	\$ 3,671,781	\$ 3,972,068
Fees assessed to fairs	124,750	89,000
Investment income	263,674	294,473
Excess insurance reimbursement	87,259	
Claims paid or accrued	(181,479)	(624,329)
Administration fee	(50,000)	(50,000)
Excess policy premium	(20,000)	(9,431)
Unexpended funds at December 31	\$ <u>3,895,985</u>	\$ <u>3,671,781</u>

8. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

As discussed in Note 1, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the years ended December 31, 2001 and 2000:

	2001	2000
Unpaid losses and loss adjustment expenses, beginning of fiscal year	\$ <u>6,090,000</u>	\$ <u>6,489,285</u>
Incurred losses and loss adjustment expenses:		
Provision for covered events of the current year	2,637,053	2,490,018
Increase in provision for covered events of prior years	<u>453,296</u>	<u>1,463,884</u>
Total incurred losses and loss adjustment expenses	<u>3,090,349</u>	<u>3,953,902</u>
Payments:		
Losses and loss adjustment expenses attributable to covered events of the current year	454,734	585,277
Losses and loss adjustment expenses attributable to covered events of prior years	<u>2,778,615</u>	<u>3,767,910</u>
Total payments	<u>3,233,349</u>	<u>4,353,187</u>
Total unpaid losses and loss adjustment expenses, end of fiscal year	\$ <u>5,947,000</u>	\$ <u>6,090,000</u>

The components of the unpaid losses and loss adjustment expenses as of December 31, 2001 and 2000 were as follows:

	2001	2000
Loss reserves	\$ 4,357,477	\$ 3,946,738
Losses incurred but not reported (IBNR)	1,292,523	1,893,262
Unallocated loss adjustment expenses (ULAE)	<u>297,000</u>	<u>250,000</u>
Total	\$ <u>5,947,000</u>	\$ <u>6,090,000</u>

9. CONFIDENCE MARGIN

The Board has designated a confidence margin for all programs of the Authority for future loss development in order to maintain a 90% confidence level for each program for 2001 and 2000. The confidence margin represents actuarially estimated losses at a specific confidence level in excess of the actuarially estimated losses at the expected (55%) confidence level. Any retained earnings in excess of the confidence margin are undesignated. The designated retained earnings confidence margin for each of the programs at December 31 is as follows:

	2001	2000
General liability	\$ 1,180,000	\$ 1,480,000
Workers' compensation	1,097,000	840,000
Special events	<u>238,000</u>	<u>280,000</u>
Total confidence margin	\$ <u>2,515,000</u>	\$ <u>2,600,000</u>

10. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Authority does not make contributions to the plan.

In 1997, the Board authorized revisions to the plan to implement federal legislative changes. These changes clarified that plan assets are held for the benefit of participating employees and are not subject to claims by creditors of the Authority. Therefore, the plan is not included in the Authority's financial statements.

11. EMPLOYEE RETIREMENT SYSTEM

Eligible employees are covered under an agent multi-employer defined benefit pension plan maintained by an agency of the State of California. The Authority's employees are members of the California Public Employees' Retirement System (CalPERS).

PLAN DESCRIPTION

The Authority's defined benefit pension plan (the Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Miscellaneous Group of the California Public Employees' Retirement System, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Plan provides optional benefit provisions from the benefit menu selected under contract with CalPERS and adopts those benefits through the Authority's Board approval. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, California 95814.

FUNDING POLICY

Active Authority employees are required to contribute 7.0% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its employees. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended December 31, 2001 was 0%. The contribution requirements of the employees are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

ANNUAL PENSION COST

For the year ended December 31, 2001, the Authority's employee's contribution amount was \$98,241. The required contribution for the year ended December 31, 2001 was determined as part of the June 30, 1998 and June 30, 1999 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included an 8.25% investment rate of return (net of administrative expenses) and a 3.5% cost-of-living adjustment. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Authority's excess assets are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2001 was 20 years.

THREE-YEAR TREND INFORMATION FOR THE PLAN

Fiscal Year Ended December 31:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Obligation (Asset) / Liability
1999	\$ 130,421	100%	\$ 0
2000	\$ 95,999	100%	\$ 0
2001	\$ 98,241	100%	\$ 0

Amounts contributed to CalPERS are based on the actuarially determined annual contribution rates applied as a percentage of payroll costs. The amounts contributed will differ from the projected annual pension cost due to fluctuations between actual and projected payroll costs. The net pension asset as of December 31, 2001 is not significant and has not been accrued in the financial statements.

FUNDED STATUS OF THE PLAN

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Excess Assets	Funded Status	Annual Covered Payroll	Excess Assets as a Percentage of Payroll
1998	\$ 2,867,473	\$ 3,894,958	\$ 1,027,485	135.8%	\$ 2,000,559	51.360%
1999	\$ 3,150,585	\$ 4,495,546	\$ 1,344,961	142.7%	\$ 1,415,502	95.017%
2000	\$ 3,660,609	\$ 5,109,206	\$ 1,448,597	139.6%	\$ 1,304,708	111.028%

12. POSTRETIREMENT BENEFITS

The Authority provides postretirement health care benefits in accordance with Government Code Section 22754 to all employees who retire from the Authority on or after attaining a certain age and meeting length of service requirements. The postretirement health care benefits are funded on a

pay-as-you-go basis. The Authority had seven retirees as of December 31, 2001 and seven retirees as of December 31, 2000, on whose behalf it paid \$33,185 and \$24,875 in postretirement health care benefits during the years ended December 31, 2001 and 2000, respectively.

13. LEASE INCOME

The Authority leases a portion of its office building to other joint powers authorities and one other tenant under operating leases which expire in December 2005. The leases provide for monthly fixed payments. Lease income under these noncancelable leases was \$125,438 for the year ended December 31, 2001. Total rental income for the years ended December 31, 2001 and 2000, including sublease income, amounted to \$125,438 and \$155,788, respectively.

Minimum future rental payments to be received under the noncancelable leases for each of the next five years is as follows at December 31, 2001:

	YEAR ENDING DECEMBER 31,
2002	\$ 127,757
2003	129,578
2004	132,612
2005	<u>93,934</u>
Total	\$ <u>483,881</u>

14. SUBSEQUENT EVENT

As discussed in Note 6, the Authority began a Pooled Property Protection Program, effective January 1, 2002. This program was funded by a \$2,550,000 transfer from the California Fairs Financing Authority and \$450,000 from the Division of Fairs and Expositions of the California Department of Food and Agriculture. The Authority's SIR is \$500,000 for each occurrence with a \$1,000,000 annual aggregate for all losses. In addition, the Authority obtained excess property insurance coverage with limits of up to \$100,000,000 per occurrence for covered locations.

SUPPLEMENTARY INFORMATION



**RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
GENERAL LIABILITY PROGRAM**

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Unpaid Losses and Loss Adjustment Expenses, Beginning of Year	\$ <u>3,240,000</u>	\$ <u>2,555,241</u>
Incurring Losses and Loss Adjustment Expenses:		
Provision for Insured Events of the Current Year	838,196	1,010,609
Increase (decrease) in Provision for Insured Events of Prior Years	<u>(95,272)</u>	<u>2,036,154</u>
Total Incurred Losses and Loss Adjustment Expenses	<u>742,924</u>	<u>3,046,763</u>
Payments:		
Losses and Loss Adjustment Expenses Attributable to		
Insured Events of the Current Year	82,021	114,724
Losses and Loss Adjustment Expenses Attributable to		
Insured Events of Prior Years	<u>1,550,903</u>	<u>2,247,280</u>
Total Payments	<u>1,632,924</u>	<u>2,362,004</u>
Total Unpaid Losses and Loss Adjustment Expenses, End of Year	\$ <u>2,350,000</u>	\$ <u>3,240,000</u>
	2001	2000
Claims Reserves	\$ 1,979,702	\$ 2,609,397
Claims Incurred But Not Reported (IBNR)	260,298	540,603
Unallocated Loss Adjustment Expenses (ULAE)	<u>110,000</u>	<u>90,000</u>
	\$ <u>2,350,000</u>	\$ <u>3,240,000</u>

**RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
WORKERS' COMPENSATION PROGRAM**

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Unpaid Losses and Loss Adjustment Expenses, Beginning of Year	\$ <u>2,590,000</u>	\$ <u>3,402,220</u>
Incurred Losses and Loss Adjustment Expenses:		
Provision for Insured Events of the Current Year	1,669,000	1,390,309
Decrease in Provision for Insured Events of Prior Years	<u>677,432</u>	<u>(623,986)</u>
Total Incurred Losses and Loss Adjustment Expenses	<u>2,346,432</u>	<u>766,323</u>
Payments:		
Losses and Loss Adjustment Expenses Attributable to		
Insured Events of the Current Year	354,363	469,189
Losses and Loss Adjustment Expenses Attributable to		
Insured Events of Prior Years	<u>1,166,069</u>	<u>1,109,354</u>
Total Payments	<u>1,520,432</u>	<u>1,578,543</u>
Total Unpaid Losses and Loss Adjustment Expenses, End of Year	\$ <u>3,416,000</u>	\$ <u>2,590,000</u>
	2001	2000
Claims Reserves	\$ 2,343,504	\$ 1,263,791
Claims Incurred But Not Reported (IBNR)	921,496	1,206,209
Unallocated Loss Adjustment Expenses (ULAE)	<u>151,000</u>	<u>120,000</u>
	\$ <u>3,416,000</u>	\$ <u>2,590,000</u>

**RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
SPECIAL EVENTS PROGRAM**

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Unpaid Losses and Loss Adjustment Expenses, Beginning of Year	\$ <u>260,000</u>	\$ <u>531,824</u>
Incurred Losses and Loss Adjustment Expenses:		
Provision for Insured Events of the Current Year	129,857	89,100
Increase in Provision for Insured Events of Prior Years	<u>(128,864)</u>	<u>51,716</u>
Total Incurred Losses and Loss Adjustment Expenses	<u> 993</u>	<u>140,816</u>
Payments:		
Losses and Loss Adjustment Expenses Attributable to		
Insured Events of the Current Year	18,350	1,364
Losses and Loss Adjustment Expenses Attributable to		
Insured Events of Prior Years	<u>61,643</u>	<u>411,276</u>
Total Payments	<u>79,993</u>	<u>412,640</u>
Total Unpaid Losses and Loss Adjustment Expenses, End of Year	\$ <u>181,000</u>	\$ <u>260,000</u>
	2001	2000
Claims Reserves	\$ 34,271	\$ 73,550
Claims Incurred But Not Reported (IBNR)	110,729	146,450
Unallocated Loss Adjustment Expenses (ULAE)	<u>36,000</u>	<u>40,000</u>
	\$ <u>181,000</u>	\$ <u>260,000</u>

CLAIMS DEVELOPMENT INFORMATION • GENERAL LIABILITY PROGRAM • DECEMBER 31, 2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(1) Premium Revenue:										
Earned	\$ 2,078,074	\$ 2,017,333	\$ 2,144,903	\$ 2,308,217	\$ 2,322,560	\$ 1,520,640	\$ 1,798,886	\$ 1,575,962	\$ 1,528,290	\$ 1,691,999
Ceded	0	0	0	0	(67,241)	(149,247)	(221,415)	(218,360)	(275,000)	(286,275)
Net Earned	2,078,074	2,017,333	2,144,903	2,308,217	2,255,319	1,371,393	1,577,471	1,357,602	1,253,290	1,405,724
(2) Unallocated Expenses*:										
Direct and Indirect Costs	706,615	864,142	852,667	751,077	643,933	718,567	538,189	448,163	527,585	640,809
ULAE Reserve Adjustment	0	0	0	0	0	0	(396,087)	(18,114)	(88,273)	20,000
Net Expenses	706,615	864,142	852,667	751,077	643,933	718,567	142,102	430,049	439,312	660,809
(3) Estimated Losses and Expenses End of Policy Year:										
Incurred**	975,849	1,745,678	1,432,855	2,322,830	2,078,420	4,499,615	800,000	730,000	1,060,000	825,000
Ceded	0	0	0	0	0	(652,869)	0	0	0	0
Net Incurred	975,849	1,745,678	1,432,855	2,322,830	2,078,420	3,846,746	800,000	730,000	1,060,000	825,000
(4) Net Paid (Cumulative) as of:										
End of Policy Year	40,084	155,857	69,089	67,214	49,916	70,954	29,112	41,142	114,724	82,021
One Year Later	146,540	314,454	210,680	279,430	143,183	1,153,797	80,343	169,784	228,825	
Two Years Later	195,813	570,272	471,180	959,139	336,581	1,591,012	155,479	562,459		
Three Years Later	209,986	634,983	614,412	1,027,067	599,882	3,621,314	180,752			
Four Years Later	209,746	765,254	691,360	1,068,584	600,581	4,641,218				
Five Years Later	207,946	777,463	737,981	1,051,959	600,581					
Six Years Later	206,121	809,767	760,132	1,051,959						
Seven Years Later	204,321	818,544	760,132							
Eight Years Later	202,521									
Nine Years Later	201,471									
(5) Re-estimated Ceded Losses and Expenses:	0	0	0	0	0	652,869	0	0	0	0
(6) Re-estimated Net Incurred Losses and Expenses as of:										
End of Policy Year	975,849	1,745,678	1,432,855	2,322,830	2,078,420	3,846,746	800,000	730,000	1,060,000	825,000
One Year Later	657,999	1,295,343	2,022,286	2,062,921	1,397,087	2,200,000	600,000	930,000	1,297,000	
Two Years Later	422,178	1,290,956	1,397,328	1,671,684	730,000	2,340,000	440,000	778,000		
Three Years Later	458,417	1,058,522	1,080,111	1,200,000	810,000	4,717,000	339,000			
Four Years Later	297,544	916,454	870,000	1,150,000	660,000	4,642,000				
Five Years Later	231,330	830,000	820,000	1,051,959	656,000					
Six Years Later	210,000	850,000	760,132	1,051,959						
Seven Years Later	210,000	818,544	760,132							
Eight Years Later	204,000									
Nine Years Later	202,000									
(7) Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year:	\$ (773,849)	\$ (927,134)	\$ (672,723)	\$ (1,270,871)	\$ (1,422,420)	\$ 142,385	\$ (461,000)	\$ 48,000	\$ 237,000	\$ 0

* Beginning in 1998, unallocated loss adjustment expenses (ULAE) are included in Line 2 in accordance with GASB 10. In prior years, ULAE was included in Line 3.
 ** Beginning in 1998, the estimated incurred losses in Line 3 are presented at the expected (55%) confidence level. Prior years' estimated incurred losses were presented at an 80% confidence level, which increased the estimated incurred losses.

CLAIMS DEVELOPMENT INFORMATION • WORKERS' COMPENSATION PROGRAM • DECEMBER 31, 2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(1) Premium Revenue:										
Earned	\$ 2,855,582	\$ 2,855,582	\$ 3,191,767	\$ 3,040,938	\$ 3,243,352	\$ 2,141,088	\$ 2,524,431	\$ 2,120,786	\$ 2,325,968	\$ 2,569,992
Ceded	(157,024)	(113,009)	(81,794)	(80,960)	(59,258)	(58,650)	(43,552)	(39,191)	(29,370)	(40,122)
Net Earned	2,698,558	2,742,573	3,109,973	2,959,978	3,184,094	2,082,438	2,480,879	2,081,595	2,296,598	2,529,870
(2) Unallocated Expenses:*										
Direct and Indirect Costs	580,220	738,083	789,274	816,225	819,559	900,406	938,620	706,406	790,154	812,421
UIAE Reserve Adjustment	0	0	0	0	0	0	107,267	(15,000)	(145,000)	31,000
Net Expenses	580,220	738,083	789,274	816,225	819,559	900,406	1,045,887	691,406	645,154	843,421
(3) Estimated Losses and Expenses, End of Policy Year:										
Incurred**	2,063,296	2,104,368	2,334,151	1,811,805	2,226,692	1,671,336	1,430,000	1,600,000	1,480,000	1,653,000
Ceded	0	0	0	0	0	0	0	0	0	0
Net Incurred	2,063,296	2,104,368	2,334,151	1,811,805	2,226,692	1,671,336	1,430,000	1,600,000	1,480,000	1,653,000
(4) Net Paid (Cumulative) as of:										
End of Policy Year	355,725	358,669	412,287	236,129	402,881	306,799	255,547	352,759	438,517	354,363
One Year Later	1,046,672	961,734	689,334	561,340	908,207	702,814	585,683	811,315	1,094,032	
Two Years Later	1,541,847	1,240,156	959,607	746,076	1,330,716	885,468	717,831	1,091,017		
Three Years Later	1,747,848	1,303,124	1,047,579	862,417	1,550,110	1,174,981	731,970			
Four Years Later	1,853,254	1,389,706	1,077,716	904,817	1,674,202	1,169,909				
Five Years Later	1,883,916	1,409,087	1,076,355	917,050	1,785,278					
Six Years Later	1,881,583	1,432,816	1,089,368	940,271						
Seven Years Later	1,892,997	1,466,746	1,063,969							
Eight Years Later	1,907,488	1,477,936								
Nine Years Later	1,903,280									
(5) Re-estimated Ceded Losses and Expenses:	0	0	0	0	0	0	0	0	0	0
(6) Re-estimated Net Incurred Losses and Expenses as of:										
End of Policy Year	2,063,296	2,104,368	2,334,151	1,811,805	2,226,692	1,671,336	1,430,000	1,600,000	1,480,000	1,653,000
One Year Later	2,260,482	2,044,129	1,605,132	1,277,603	1,964,052	1,360,000	1,190,000	1,340,000	2,134,000	
Two Years Later	2,261,190	1,808,454	1,387,159	1,139,219	1,810,000	1,350,000	1,040,000	1,514,000		
Three Years Later	2,194,582	1,614,654	1,183,123	1,110,000	1,870,000	1,340,000	842,000			
Four Years Later	2,074,936	1,543,502	1,180,000	1,010,000	1,860,000	1,257,000				
Five Years Later	1,934,290	1,590,000	1,150,000	980,000	1,952,000					
Six Years Later	1,970,000	1,580,000	1,130,000	962,000						
Seven Years Later	1,970,000	1,530,000	1,076,668							
Eight Years Later	1,950,000									
Nine Years Later	1,919,000									
(7) Decrease in Estimated Net Incurred Losses and Expenses from End of Policy Year	\$ (144,296)	\$ (550,368)	\$ (1,257,483)	\$ (849,805)	\$ (274,692)	\$ (414,336)	\$ (588,000)	\$ (86,000)	\$ 654,000	\$ 0

* Beginning in 1998, unallocated loss adjustment expenses (UIAE) are included in Line 2 in accordance with GASB 10. In prior years, UIAE was included in Line 3.
 ** Beginning in 1998, the estimated incurred losses in Line 3 are presented at the expected (55%) confidence level. Prior years' estimated incurred losses were presented at an 80% confidence level, which increased the estimated incurred losses.

CLAIMS DEVELOPMENT INFORMATION • SPECIAL EVENTS PROGRAM • DECEMBER 31, 2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(1) Premium Revenue:										
Earned	\$ 458,216	\$ 496,867	\$ 492,584	\$ 467,155	\$ 492,227	\$ 473,464	\$ 423,099	\$ 414,599	\$ 385,841	\$ 440,586
Ceded	(114,925)	(101,509)	(93,578)	(96,526)	(96,526)	(53,754)	(53,916)	(56,843)	(65,000)	(65,000)
Net Earned	343,291	395,358	399,006	370,629	395,701	419,710	369,183	357,756	320,841	375,586
(2) Unallocated Expenses:*										
Direct and Indirect Costs	43,534	169,333	246,722	273,859	258,250	198,007	196,712	187,747	190,607	184,338
ULAE Reserve Adjustment	0	0	0	0	0	0	(103,279)	(3,000)	13,000	(4,000)
Net Expenses	43,534	169,333	246,722	273,859	258,250	198,007	93,433	184,747	203,607	180,338
(3) Estimated Losses and Expenses, End of Policy Year:										
Incurred**	182,225	214,859	184,882	337,867	228,197	229,272	400,000	130,000	80,000	127,000
Ceded	0	0	0	0	0	0	0	0	0	0
Net Incurred	182,225	214,859	184,882	337,867	228,197	229,272	400,000	130,000	80,000	127,000
(4) Net Paid (Cumulative) as of:										
End of Policy Year	7,276	15,649	12,200	11,738	8,982	6,885	14,824	6,321	1,364	18,350
One Year Later	37,991	108,951	25,513	105,981	40,524	7,022	198,855	32,911	59,900	
Two Years Later	87,255	161,148	56,507	142,775	90,069	7,022	583,542	32,911		
Three Years Later	95,987	161,148	90,801	95,717	90,069	7,022	586,649			
Four Years Later	95,987	161,148	91,373	95,717	90,069					
Five Years Later	95,987	161,148	91,373	95,717	90,069	7,022				
Six Years Later	95,986	161,148	91,283	95,717						
Seven Years Later	95,986	161,148	91,283	95,717						
Eight Years Later	95,986	161,148								
Nine Years Later	95,986		161,148							
(5) Re-estimated Ceded Losses and Expenses:										
	0	0	0	0	0	0	0	0	0	0
(6) Re-estimated Net Incurred Losses and Expenses as of:										
End of Policy Year	182,225	214,859	184,882	337,867	228,197	229,272	400,000	130,000	80,000	127,000
One Year Later	202,689	268,843	131,958	317,161	234,489	57,022	580,000	80,000	96,000	
Two Years Later	130,335	239,283	151,767	316,447	90,069	7,022	680,000	32,911		
Three Years Later	123,164	205,909	132,751	95,717	90,069	7,022	586,649			
Four Years Later	112,055	206,582	91,373	95,717	90,069					
Five Years Later	105,552	161,148	91,373	95,717						
Six Years Later	95,986	161,148	91,283	95,717						
Seven Years Later	95,986	161,148								
Eight Years Later	95,986		161,148							
Nine Years Later	95,986									
(7) Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year										
	\$ (86,239)	\$ (53,711)	\$ (93,599)	\$ (242,150)	\$ (138,128)	\$ (222,250)	\$ 186,649	\$ (97,089)	\$ 16,000	\$ 0

* Beginning in 1998, unallocated loss adjustment expenses (ULAE) are included in Line 2 in accordance with GASB 10. In prior years, ULAE was included in Line 3.
 ** Beginning in 1998, the estimated incurred losses in Line 3 are presented at the expected (55%) confidence level. Prior years' estimated incurred losses were presented at an 80% confidence level, which increased the estimated incurred losses.

NOTES TO SUPPLEMENTARY INFORMATION DECEMBER 31, 2001

CLAIMS DEVELOPMENT INFORMATION

The tables illustrate how the Authority's earned revenues (net of reinsurance) and investment income compared to related costs of loss and other expenses assumed by the Authority as of the end of each of the previous ten years for the general liability program, workers' compensation program, and special events program. The rows of the tables are defined as follows:

1. Total of each year's gross earned premiums, amounts of premiums ceded, and reported premiums (net of reinsurance).
 2. Each year's other operating costs of the program, including overhead and loss adjustment expenses not allocable to individual claims. This line also includes investment revenues through the allocation of overhead from administration.
 3. Program's gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called the policy year).
 4. Cumulative net amounts paid as of the end of successive years for each policy year.
 5. Latest re-estimated amount of losses assumed by reinsurers for each policy year.
 6. Each policy year's net incurred losses as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, and emergence of new losses not previously known.
 7. Comparison of the latest re-estimated net incurred losses to the amount originally established (line 3). This line shows whether the latest estimate of losses is greater or less than originally thought. As data on individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature policy years.
- The columns of the tables show data for successive policy years.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors

California Fair Services Authority

Sacramento, California

March 5, 2002

We have audited the financial statements of the California Fair Services Authority (the Authority) as of and for the year ended December 31, 2001, and have issued our report thereon dated March 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Authority's Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

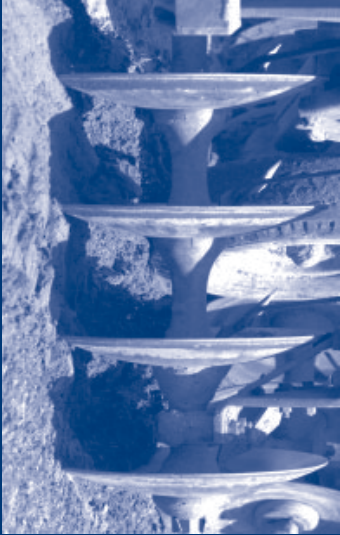
GILBERT ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS

2880 Gateway Oaks Drive, Suite 100 • Sacramento, California 95833 • Tel: 916.646.6464 • Fax: 916.641.2727 • <http://www.gilbertcpa.com>



● A special THANK YOU goes to the participants, instructors and hosts of Maintenance Mania and to the management and staff of the Sacramento County Fair for allowing us to photograph their events and activities for our 2001 annual report.



1776 Tribute Road, Suite 100
Sacramento, California 95815

916/921.2213

Fax: 916/646.1238

www.cfsa.org

